

Mervi Winberg

## The New Leasing Standard – Implementation Plan

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<p>In the future, the new IFRS (International Financial Reporting Standard) leasing standard requires corporations to record the majority of the current operating leasing contracts in the Statement of Financial Position. The present thesis was a case study that wanted to analyse what this new standard requirement meant for the target company. More precisely, the aim of the work was to evaluate what kind of platform should be used for monitoring lease agreements in the future and how the company should prepare itself for lease accounting changes.</p> <p>The theoretical framework of the study focused on the IFRS leases, the selection criteria and decision making processes in an organization. The study was conducted as a case study using qualitative research methods. In this thesis, qualitative and quantitative information was collected, people were interviewed regarding the leasing issues, topical leasing seminars were participated in and a literature-review was conducted.</p> <p>The main results of the thesis were the following conclusions: for the lessee the new leasing standard will increase administrative burden, it is important to coordinate the implementation project steps with the corporate IT department and based on current available platforms. The technical solution suggested was an Excel tool. The platforms to calculate the future cash flows and accounting entries can be Excel solutions developed in-house or an Excel tool to be purchased from an external vendor. The target company has enough time to tailor the tool to their needs. When the new standard will be published, the target company needs to consider a precise timetable for the implementation project. Entries in the general ledger accounts should be walked through with the auditors. The training should focus on the user needs and it should be as practical as possible. During implementation a support plan for the system should be created as well and either a formal or informal post-implementation review will be made.</p>	
Keywords	IAS 17, implementation, lease agreements, technical solution

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# 1 Introduction

## 1.1 Background

Requirements of the new IFRS (International Financial Reporting Standard) leasing standard mean that corporations should record majority of the current operating leasing contracts in the Statement of Financial Position. The selected research method is a case study (of rental agreements or leases) and the following common approach is used for the research: step-by-step process from problem identification. What does this new standard requirement possible means for Componenta?

Componenta is a casting solutions provider in Europe. The Group has production units in Turkey, Finland, the Netherlands and Sweden and customer service centres in ten countries. The head office is located in Helsinki. The shares of Componenta Corporation are quoted in the NASDAQ OMX Helsinki. The Group's subsidiary Componenta Dökümcülük AS is listed in the Istanbul Stock Exchange. Componenta's customers are manufacturers of machines and equipment in the following industrial sectors: machine building, heavy trucks, construction and mining, automotive, agricultural machinery, and wind power.

Componenta's net sales were 495 million euro and the number of employees was approximately 4,250 in 2014. Business operations are divided by production units into four segments: the Foundry Division, the Machine Shop Division, the Aluminium Division, and the segment other. All production units have third-party certified quality and environmental management systems (Componenta, 2015).

## 1.2 Problem Setting and Objective

The selected research method is a case study (of rental agreements or leases), and the following common approach is used for research: step-by-step process from problem identification. The objective of the IFRS Foundation project is to develop a new Leases standard that establishes the principles that entities would apply to report useful information to investors and analysts about timing and the amount and

uncertainty of cash flows arising from a lease. A lessee should recognise assets and liabilities arising from a lease.

This Thesis aims to answer for the following questions:

- What does this new standard requirement possible means for Componenta?
- What kind of platform should be used for monitoring in the future?
- Requirements and pros and cons of the possible platforms should be mapped.
- Web based system or more heavy SAP (Systems Applications Products) based tool?
- Should we change some policies? Should leasing “business model” be changed due to IFRS requirements?

### 1.3 Scope

This Thesis focuses and stresses the following issues:

- More detailed mapping of all the current operating leasing contracts:
  - Basic mapping was done prior this Thesis.
  - More information is needed especially from IT leasing contracts.
  - It must also be verified that the basic mapping done earlier is comprehensive enough.
- What does this new standard requirement possible means for Componenta?
  - Follow up of the leasing contracts must be more detailed? Does it create additional work for accounting and for the persons responsible for the leasing agreements?
  - Possibly the monitoring cannot be done in Excel anymore? Currently Excel and TWIN are used when financial leasing contracts are monitored and financial reporting controlled.
  - What kind of platform should be used for monitoring in the future? Requirements and pros and cons of the platform should be mapped. Is it Web based system or more heavy SAP based tool?
  - Possible vendors of the new platform should be scanned and draft project plans brainstormed.

- Possible changes of policies when leasing contract are agreed with the lessors
  - o The gist and nature of the leasing contract are playing a role regarding the reporting requirements under IFRS are defined?
  - o Should Componenta change some policies? Should leasing “business model” be changed due to IFRS requirements?
  - o In the past, rental agreements have been an easy solution from administration perspective. Will the situation be different in the future?

#### 1.4 Key Milestones of the Thesis Preparation

Figure 1 illustrates the schedule of the thesis. Each stage ends with a gate that tests whether to proceed to the next stage.

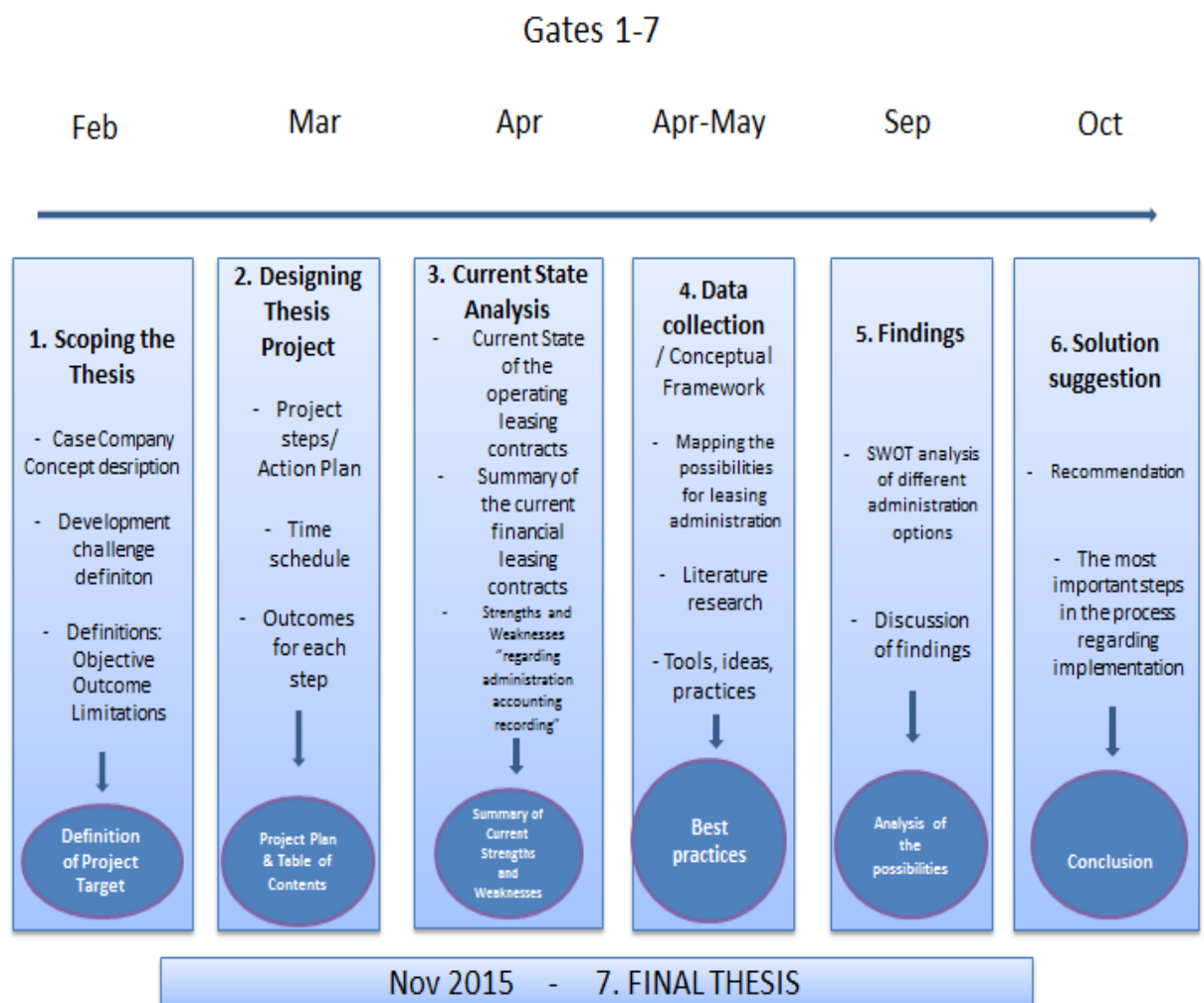


Figure 1. Schedule.

Strengths, which are facilitating the Thesis preparation:

Organization is familiar to me and my supervisor can help me at work. In addition, the basic mapping of the current operating leasing contracts is already done. Furthermore the project is also considered to be very useful for the company.

Challenges from the Thesis preparation perspective:

Generally speaking more information is needed from the IT leasing contracts and it might be challenging and time consuming to identify all relevant contracts as well as to familiarize myself to the content of the contracts. In addition, somewhat more information is also needed from all other leasing contracts, which requires walked through sessions to be held with the business unit controllers.

The implementation schedule of the new IFRS leasing standard for corporations is open. The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) are expecting to conclude their redeliberations and to issue their respective new standards by the end of 2015.



## 2 Collection, Practices and Previous Studies

Procedural method of qualitative data analysis was applied to identify the research problem. According to Anttila (2006, p. 462) the meaning of this, is the realization of operational contexts and structures. Procedural objectivity means that ranking, counting and measurement procedures must operate in such a way that they are standardized. Its nature is often unclear and it is a bound to create difficulties in the interpretation (Anttila, 2006, 388).

Qualitative study data is a starting point for the interpretation of the results and for aiding the investigation. The examiner must check that the method used is determined by the results of the research. The results of the research should be transferable to similar situations. This measures the reliability the survey (Järvenpää, 2006).

Qualitative researchers are interested in how the accounts that people give are constructed. Information can come in documents, in interviews, or in ordinary talk. Narrative analysis tells many of its information from earlier investigations of literature. Data is primarily in the form of words, not numbers in the qualitative research (Hammersley. 2013, 61).

A pilot case study means data collection plans with respect to both the procedures to be followed and the content of the data. It is a preliminary study aimed at developing and testing the procedures (Yin. 2014, 96).

A research design is a logical plan that guides investigator in the process. Between here and there a plan guides in the process collection and analysis of relevant data (Yin. 2014, 28). Figure 2 illustrates the case study research.

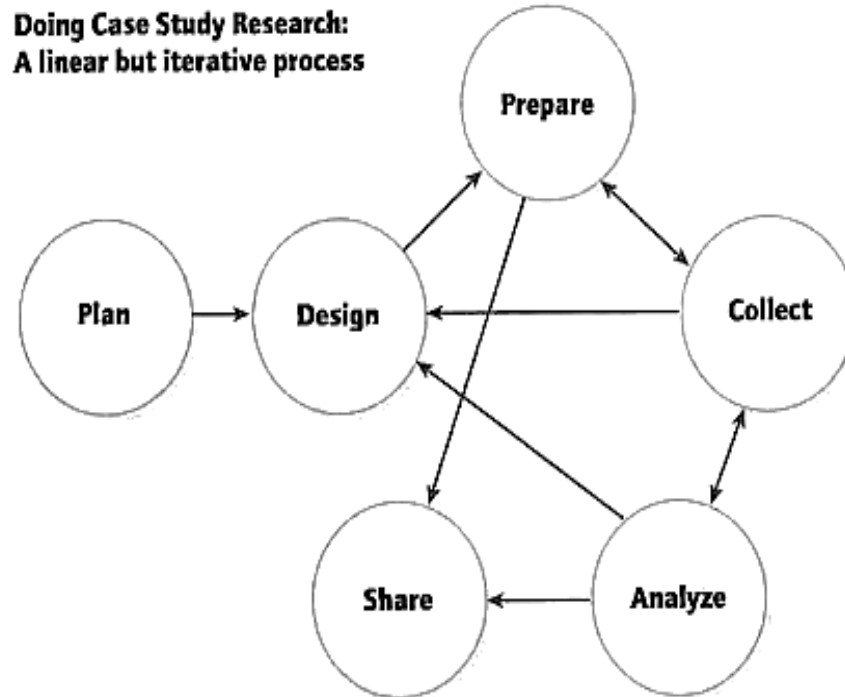


Figure 2. Case Study Research (Yin. 2014, 2).

In this Thesis, qualitative and quantitative information have been collected, people have been interviewed regarding the leasing issues, topical leasing seminars have been participated and a literature-review has been conducted.

According to the report of the DPOC (Due Process Oversight Committee) meeting held in February 3, 2015.

1.7 On leases, the DPOC was reminded that, at meetings between March 2014 and January 2015, the IASB and the US Financial Accounting Standards Board (FASB) had reached converged tentative decisions on almost all aspects of their joint project, the most important of which were as follows:

- (a) to require lessees to recognise assets and liabilities for all leases (other than short-term leases and, for the IASB, leases of small assets such as laptops and office furniture);
- (b) to measure lease liabilities on a present value basis, with simplifications made to that measurement to address concerns about cost and complexity;
- (c) to distinguish a lease from a service by assessing control (see further information in paragraphs 1.8 and 1.9); and
- (d) to, in essence, leave existing lessor accounting unchanged.

The two Boards, however, had reached different conclusions on the recognition and presentation of lease expenses in a lessee's income statement (IFRS Foundation, 2014).

Previous Thesis on this topic:

Markus Ahtiainen, IAS 17 – standardin käyttöönoton vaikutukset toimintaedellytysten arviointiin pienissä ja keskisuurissa yrityksissä, 2009

Anu Häkkinen, Muuttuvan vuokrasopimusstandardin IAS 17 vaikutus Andritz Oy:n kirjanpitoon, 2011

Kaisa Simola, IFRS -standardien mukainen vuokrien kirjanpito - Empiirinen analyysi IAS 17 -vuokrastandardin muutoksen vaikutuksista ja niiden merkittävyydestä, 2011

Liv Lindstedt & Carl Jarkvist, Consequences of a New Lease Standard – a qualitative study from a company and auditor perspective, 2012

Heli Rantakallio, IAS 17 Vuokrasopimukset -standardiin tulevat muutokset ja niiden vaikutukset järjestelyjen osapuolille, 2013

Lauri Veltheim, Strategic Financial Communication in Accounting Standard Changes – Case IFRS 17 Leases, 2013

Mervi Kolehmainen, IAS 17 -standardin muutoksen vaikutus yrityksen tunnuslukuihin, 2014

Kaisa Simola, Successful IFRS standard change implementation process after the initial IFRS implementation, 2014

Teemu Sormunen, IAS 17 vuokrasopimukset: standardimuutoksen vaikutukset vuokralle ottajan näkökulmasta, 2015

For example, the following conclusions were made in these studies.

The change of the lease standard will have consequences on companies using IFRS and operating leasing. The consequences will include increased balance sheets, changed debt structures, an increased administrative burden, a need to purchase new IT-systems, educational efforts and changes in companies' lease

behavior. How comprehensive these consequences will be is very individual. The companies in the present study are not particularly worried about the efforts of the new lease standard. The findings suggest that not many preparations have been conducted (Lindstedt & Jarkvist, 2012)

Results of the study showed that the amendment will be relevant to the financial Statements of the company's key figures calculated. How significant is the change depends on the industry and capital structure. Based on research can also be concluded that the amendment to the standard will provide additional information to investors and to give a clearer picture of the company's actual liabilities and obligations, whether the company's use of assets held for self-owned or leased (Kolehmainen, 2014).

The results of the research show that the lessees' reactions towards recognising all the leases over 12 months on the balance sheet were clearly more negative than positive. In addition there were also differences in reactions between different industries. Based on the results of this study grocery store chains and retailers would be most affected industry sectors because of the leases standard change. Effects on lessees' business would particularly consist of the cost of implementing the new Leases -standard and the growing administrative burden because of the new standard implementation (Sormunen, 2015).

### 3 Interdisciplinary Project Management

Section 3.1 explains the issues related to the project visibility demonstration. The relationship between different management disciplines are described in section 3.2. Section 3.3 discusses about WBS (Work Breakdown Structure). Section 3.4 explains the issues related to the project control. Evaluation and termination of the project are described in section 3.5.

#### 3.1 Project Visibility Demonstration

Successful project planning is a process. You start by identifying the stages of your project. The figure 3 displays some of the monitoring, reporting and control elements that are associated with project management in particular the area of Initiating a Project.

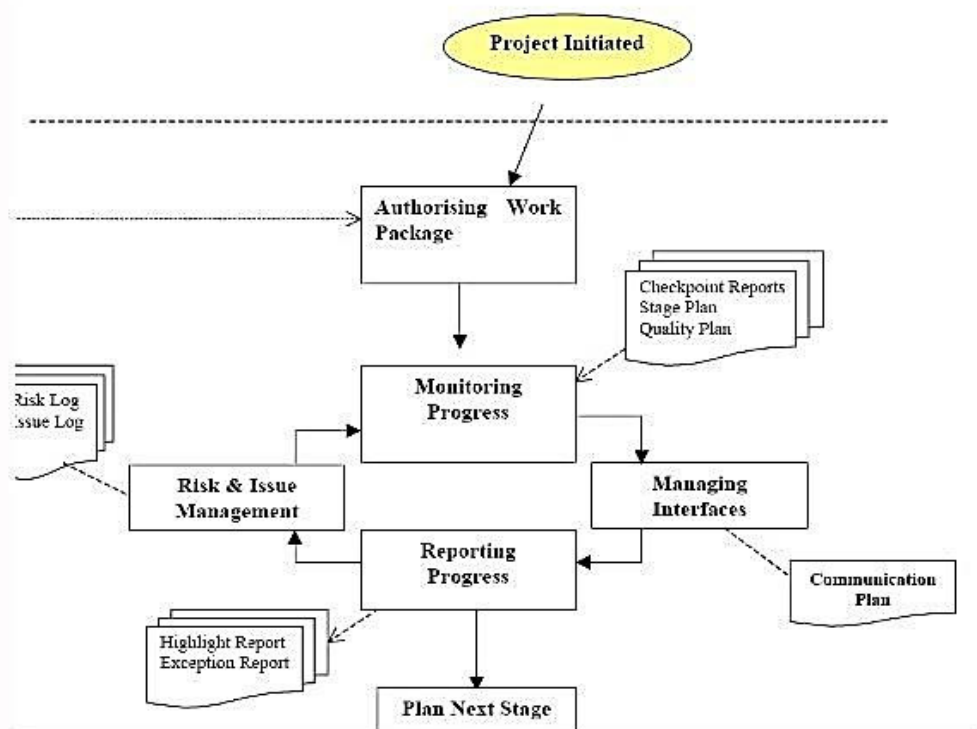


Figure 3. Project Initiation (Monitoring, Reporting & Control).

Information will be collected in meetings, through negotiations, via reports, etc. (Forsberg & Mooz & Cotterman. 2003, 232).

Many projects in an organization are carried out by using people in different divisions and departments. It is working in a matrix. Superiors can be several (Young. 2003, 232). Figure 4 illustrates project visibility demonstration.

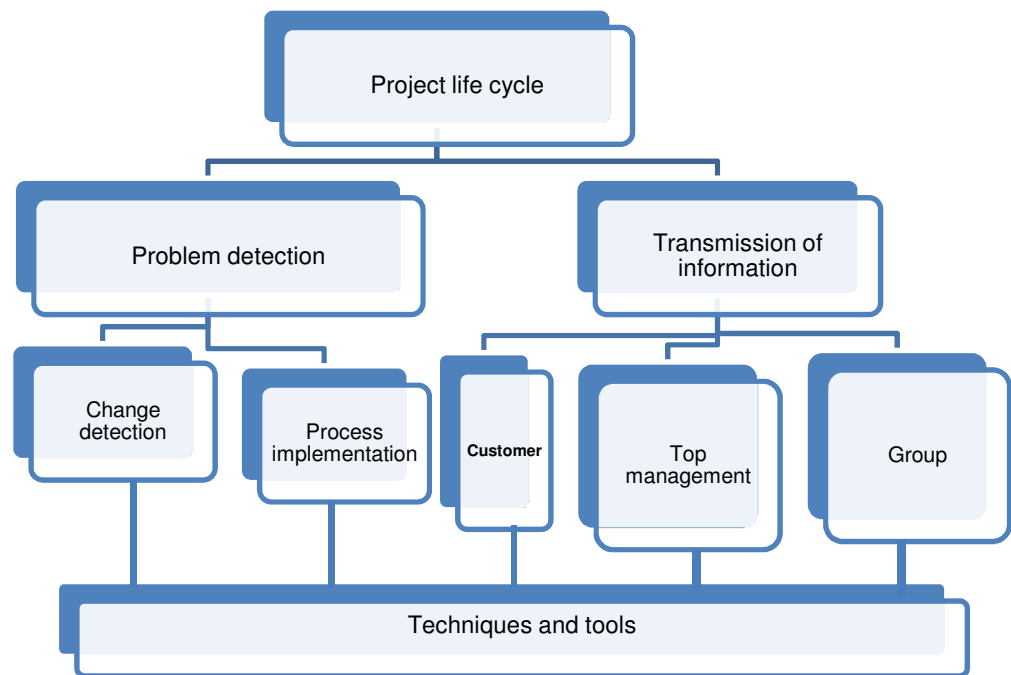


Figure 4. Project Visibility Demonstration.

It can be challenging to work in matrix organizations. Make sure that you know your priorities and roles.

### 3.2 Relationship Between Different Management Disciplines

The knowledge to manage projects brings a degree to the discipline of project management. This knowledge does overlap with other management disciplines such as application area and general application or technical management. Figure 5 illustrates relationship between knowledge areas and practice.

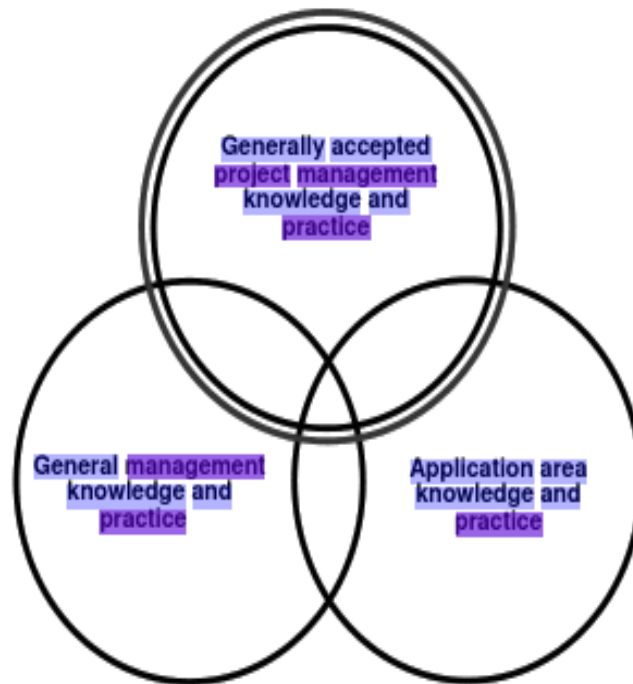


Figure 5. Relationship between knowledge areas and practice (Frigenti & Comninos. 2002, 37).  
Note: This figure is a conceptual view of these relationships.

Project communication tasks often include: develop a list of stakeholders, identify communications needs (Communication plan), allocate resources to events, and build a schedule (Project Management).

When people on a team understand the project they are more effective as individuals and more effective as a team. They are as well more motivated. There are a couple of typical characteristics that are very important for anyone who manages projects. The project manager has to be able to be an:

- Integrator: - Ensuring that all the processes and activities are integrated and team effort.
- Communicator: - Communicating and building the right support and relationships.
- Leader: - Motivating and inspiring the team to deliver the project work on time.
- Record the allocated responsibilities: This communication document is for everyone involved to the project. Ensure that team members understand the performance expected from them (Young. 2003, 139). Figure 6 illustrates project management.

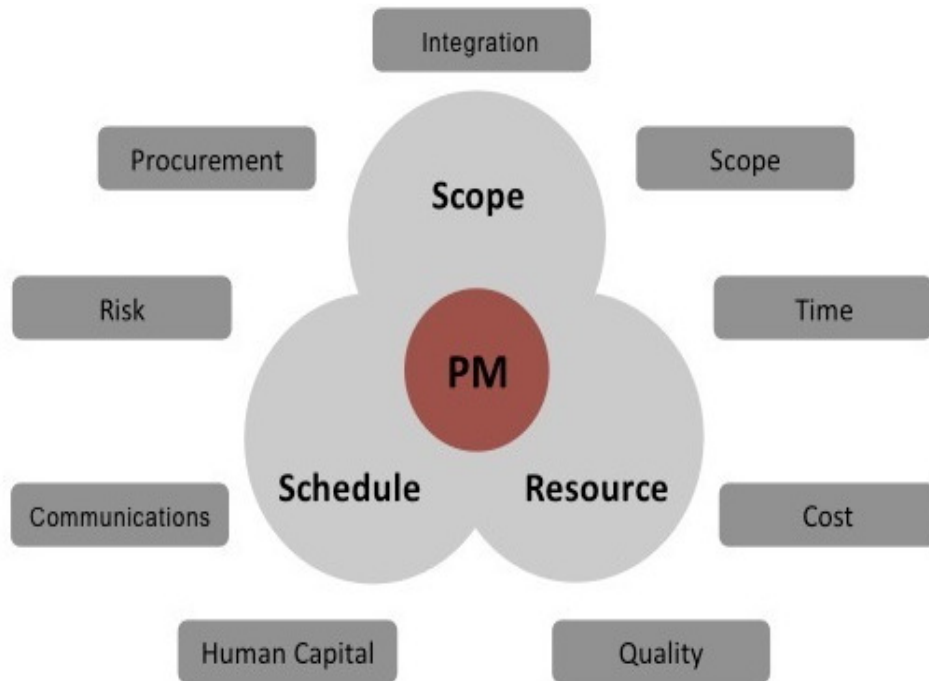


Figure 6. Project management.

Project control is a very demanding task. It is important to document finished and agreed subjects. Project management has often technical problems and human resource challenges. People have to take care of their daily routines even if they are participating a project. Software provider consultants may also lack time to participate enough in the project. It is recommended to focus on priorities and to identify the barriers that affect your work (Young. 1996, 236).

### 3.3 Work Breakdown Structure

WBS (Work Breakdown Structure) is a project management tool made to capture project tasks in a visual, organized way (Gordon, 2011). Figure 7 illustrates work breakdown structure.



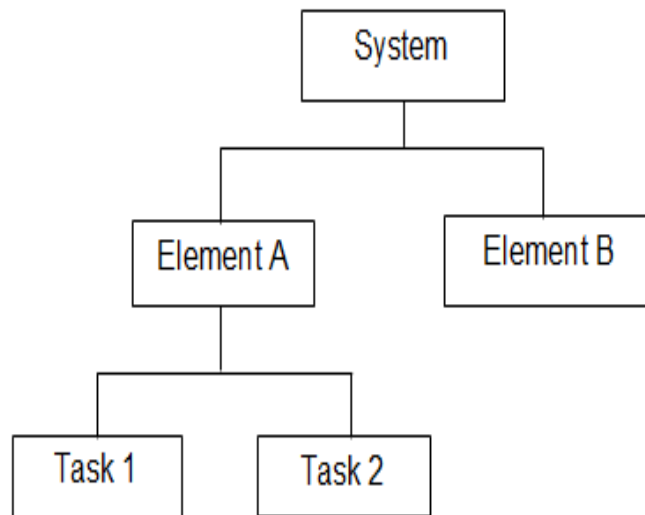


Figure 7. Work Breakdown Structure (Forsberg & Mooz & Cotterman. 2003, 171).

A work package is a part of the work breakdown structure. The work packages are individual steps that must be completed in order to complete the project goal (Project management knowledge, 2015).

### 3.4 Project Control

The aim of a project is to achieve a desired goal by using the budgeted amount of time and money. In addition, the aim of control is to ensure that actions will make sure that basic targets can be achieved. Resources that need to be controlled are time, cost and output goals (Mantel & Meredith & Shafer & Sutton. 2011, 240).

Control duties are: management team work, repetitive reporting, and intermediate audits (Anttonen. 2003, p.201-202). Project Controls rely on a toolbox of skills, analytics and programs including cost control, schedule control, estimating, document control, contract management, budgeting, forecasting, and variance analysis (Gentile. 2014). Figure 8 illustrates a general control model.

A General Control Model

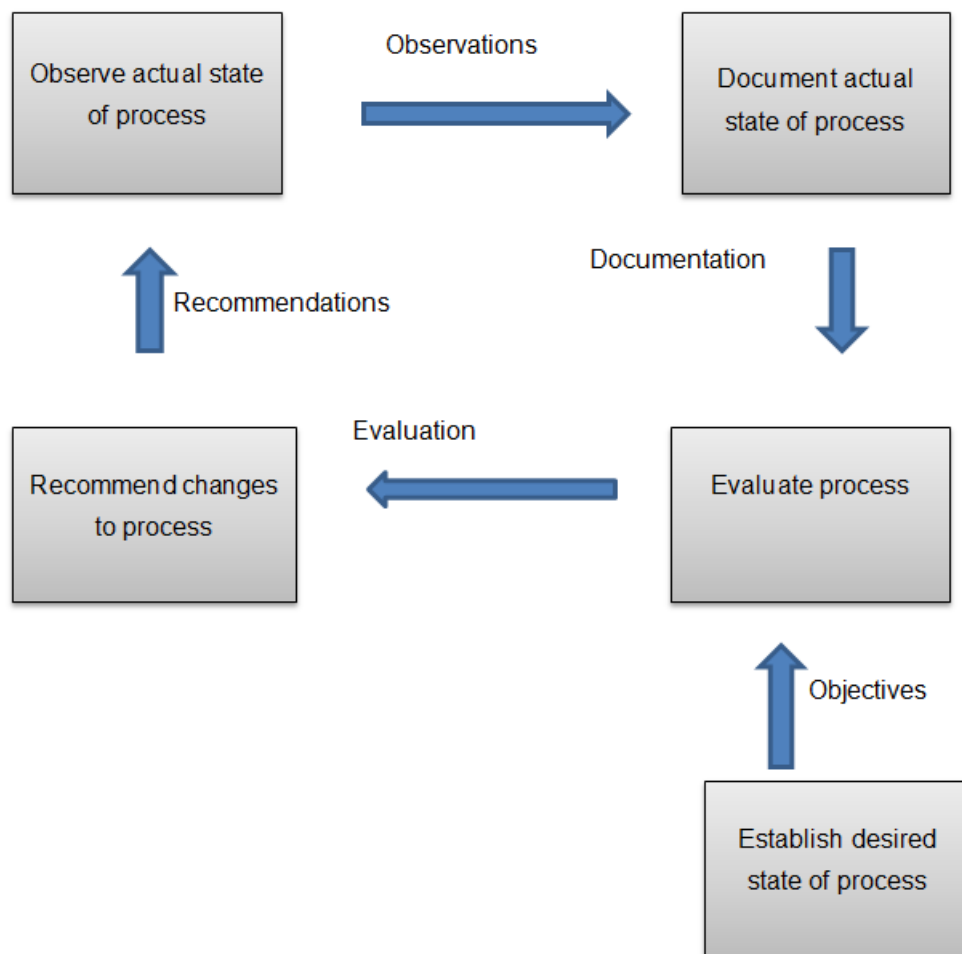


Figure 8. A General Control Model (Gelinas, Sutton &amp; Hunton, 2005, 238).

The control of expenditure is important, including the costs of people working on the project. Cost rates often include indirect costs such as rents (Young, 1996, 237).

### 3.5 Evaluation and Termination of Project

There are many different methods that may be used in a project evaluation. Was the project a necessary? How the project is developing on such criteria should be a part of the assessment as well.

Items for the Project Evaluation Report are for example communication with the client and senior management. The project audit is not a financial audit. All the information must be offered. The data should be examined and all calculations verified. Measuring

the project's success on schedule, budget and performance is easier than measuring returns or qualitative (Mantel & Meredith & Shafer & Sutton. 2011, 274-275).

Project control is a very demanding task. It is important to document properly all completed milestones and also to make sure that all participants of the project are agreeing and being aware of the still to be completed milestones. Project management has often technical problems and human resource challenges. People have to take care of their daily routines even if they are participating a project. Software provider consultants may also lack time to participate enough in the project.

## 4 IFRS Leases

All listed companies in European Union must follow IAS and IFRS standards framework in their financial statements preparations. IAS 17 Leases defines the accounting policies and disclosures applicable to leases, both for lessees and lessors.

### 4.1 International Accounting Standard 17 Leases

#### DEFINITIONS OF KEY TERMS (in accordance with IAS 17)

The definition of a lease includes those contracts for hire of an asset that contain provisions for the hirer to acquire title to the asset upon fulfilment of agreed conditions - these are sometimes called hire purchase contracts.

**Lease:** An agreement whereby the lessor conveys to the lessee in return for payment the right to use an asset for an agreed period of time.

**Finance lease:** A lease that transfers substantially all the risks and rewards of ownership of an asset. Title need not necessarily be eventually transferred.

**Operating lease:** A lease that is not a finance lease.

**Minimum lease payments:** The payments over the lease term that are required to be made. For a lessee, this includes any amounts guaranteed to be paid; for a lessor, this includes any residual value guaranteed to the lessor (Mirza et al., 2011).

The standard 17 leases, according to the standard the leases are classified into two different categories, on the basis of their content. These two classes are the finance lease and the lease or operating lease agreements. The analysis of the agreement solves how the agreement should be accounted for in the financial statements (Anttila et al. 2010, 373). In Figure 9 is a current IAS 17 model.

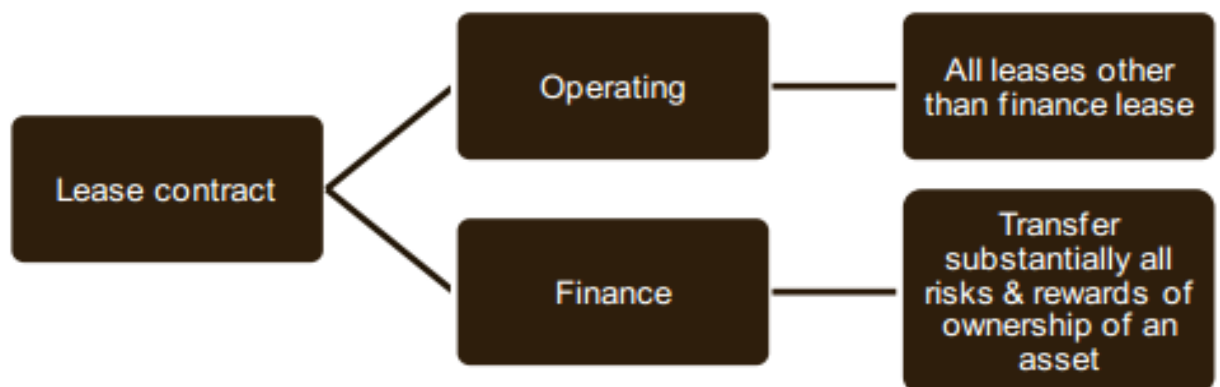


Figure 9. Current IAS 17 model (MNP. 2014).

The classification is dependent on which party will benefit from more use of assets and will be able to have an access to these benefits, or which party is responsible for the risks and losses. Using the classification of various types of enterprises accounting seeks to facilitate information and comparability of key figures (Anttila et al. 2010, 373–374).

According to IAS 17 standard a lease agreement is an agreement, in which lessee has the right to use the asset i.e. equipment, machinery, land or buildings for a certain period of time for payment or payments. Additionally, the agreement acquires the lessee the right of the ownership of the asset in accordance to the conditions agreed in the lease. According to the standard of the rental period, it is the period of time for which the lessee is entitled to the asset leased, including a possible extension without unloading (Anttila et al. 2010, 378).

Figure 10 illustrates the application of the conditions in IFRIC 4 - Determining whether an arrangement contains a lease or not.

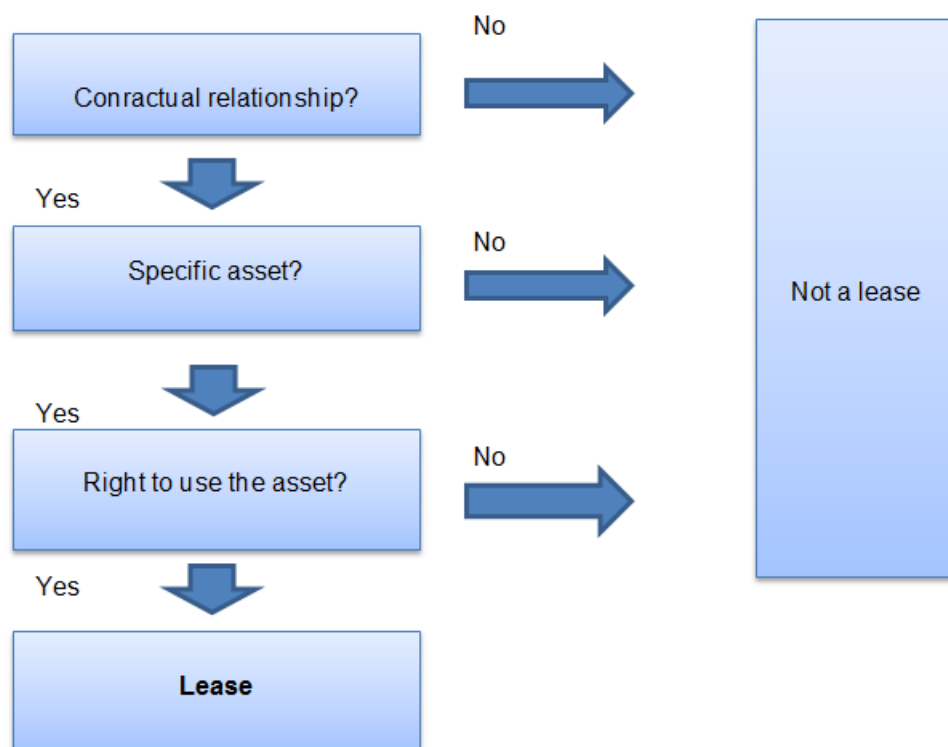


Figure 10. Determining whether an arrangement is a lease (PwC, Manual of Accounting – IFRS 2011, 19007).

The rental agreement is the agreement commercially successful based on a particular asset or asset rights. The right to use the asset if the lessee; has the right to impose the use of the asset. The agreement must be reviewed if the terms change or a material change is made to an asset (Anttila et al. 2010, 376–377).

Rentals will be included in the lease payments. If the payment of rent and other charges for the agreement of separation are not possible, as in the case of financial leasing agreement, the asset is recorded in the balance sheet assets; the asset and liability, as in the normal processing of the lease (Anttila et al. 2010, 377).

#### 4.2 IFRS Standards

The other possibility is for the purpose of accounting for this, to the extent provided under national law. Finland has provided access to a wide range of standards, as described earlier. The use of the minimum requirement set by the IAS regulation forced beyond if, that prohibits the establishment of stock companies IFRS financial statements for decision, unless they comply with the consolidated financial statements. This will ensure that the IAS/IFRS information is obtained for all listed companies.

List of companies in the accounting Act, means a company whose securities are securities market act on public trading or the corresponding trading items in the legislation of the countries of the European economic area of securities on the stock exchange. (KPL 7a:2.1).

IFRS financial statements for decision on the claim triggered a public trading of shares or securities issued by the company may be bonds. The securities are publicly traded, for example, when they are quoted on the Helsinki Exchanges (Nasdaq OMX Helsinki). The Nordic stock exchanges, on the other hand, the alternative stock exchange Nasdaq OMX First North In affiliation does not result in a reporting entity under IFRS accounting obligation.

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The framework describes the elements of financial statements as broad classes of financial effects of transactions and other events. The elements of financial statements are:

**Assets:** An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

**Liabilities:** A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

**Equity:** Equity is the residual interest in the assets of the entity after deducting all of its liabilities.

**Income:** Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

**Expenses:** Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants (Mirza, Abbas Ali & Holt, Graham J., 2011, 14).

#### 4.3 Contents of IFRS

The IFRS standards is extensive accounting information is regulated by a set of rules.

It is structured in three parts:

1. The preparation and the presentation of the accounting the general criteria (Framework)
2. The international financial reporting standards (IFRS, International Financial Reporting Standards, IAS, International Accounting Standards in the past)
3. Interpretation of the guidelines (International Financial Reporting Interpretations Committee IFRIC; formerly Standing Interpretations Committee, SIC).

The introduction of generally accepted accounting principles to IFRS implies many changes in the usual way and technical computing solutions. The IFRS as the starting point is an investor's perspective, while a set of standards based on the tradition of the creditors protection.

International Financial Reporting Standards (IFRS) develop Standards. Figure 11 illustrates IFRS Standard development. How they develop Standards? The process comprises the following six stages:

1. Setting the agenda
2. Planning the project
3. Developing and publishing the Discussion Paper, including public consultation
4. Developing and publishing the Exposure Draft, including public consultation
5. Developing and publishing the Standard
6. Procedures after an IFRS is issued



\* Published for public comment

Figure 11. IFRS Standard development (IFRS Foundation, 2015).

Corporate cash flows and fair market value changes are due to changes in the interest rate, the investment horizon and changes in expectation of future cash flows. Cash flow management is a key aspect of financial management of a business (Gregoriou & Gaber, 2006, 122).

In Anglo-Saxon countries, a value between finance leases and operating leases has been for a long time. The current Generally Accepted Accounting Principles in the US (US GAAP) and IFRS lease accounting standards are deficient (Troberg, 2013, 133).

#### 4.4 Upcoming New Standard on Leases

The new standard is not likely to be effective before January 1, 2018. The new standard would apply to leases of all assets except: lessors' leases of intangible assets, leases of biological assets, leases to explore for or use natural resources and service concession arrangements. A lease conveys the right to control the use of an identified asset. IASB does not expect the application of the small asset exemption to



give rise to the omission of material assets and liabilities when a quantitative threshold is used (EY, 2015).

Lessees for leases with a lease of 12 months or less, lessees can make an accounting policy election, to use the short-term lease exemption:

- ➔ Not recognise lease assets or liabilities
- ➔ Recognise lease expense on a straight-line basis

Figure 12 illustrates lease payments. Variable lease payments that do not depend on rate or an index would be excluded from lease payments unless they are in-substance fixed (EY, 2015).

Lease payments				
Fixed payments	Purchase options * (exercise price)	Residual value guarantees - amounts expected to be payable (lessees only)	Termination option penalties	Variable lease payments that depend on an index or rate
* Include only if reasonably certain of exercise				

Figure 12. Lease payments.

Table 1 shows leases would be presented in lessees' financial statements:

Financial statement	Lessee presentation
<b>Balance sheet</b>	<ul style="list-style-type: none"> <li>▶ Right-of-use assets presented either: <ul style="list-style-type: none"> <li>▶ Separately from other assets (e.g., owned assets)</li> <li>▶ Together with the corresponding underlying assets as if they were owned, with disclosures of the balance sheet line items that include right-of-use assets and their amounts</li> </ul> </li> <li>▶ Lease liabilities presented either: <ul style="list-style-type: none"> <li>▶ Separately from other liabilities</li> <li>▶ Together with other liabilities, with disclosure of the balance sheet line items that include lease liabilities and their amounts</li> </ul> </li> </ul>
<b>Statement of profit or loss</b>	<ul style="list-style-type: none"> <li>▶ Lease-related amortisation and lease-related interest expense would be presented separately (i.e., lease-related amortisation and interest expense could not be combined).</li> </ul>
<b>Statement of cash flows</b>	<ul style="list-style-type: none"> <li>▶ Cash payments for the principal portion of the lease liability would be presented within financing activities and cash payments for the interest portion would be presented based on an accounting policy election in accordance with IAS 7 <i>Statement of Cash Flows</i>.</li> <li>▶ Lease payments for leases of small assets and short-term leases not recognised on the balance sheet and variable lease payments not included in the lease liability would be presented within operating activities.</li> <li>▶ Non-cash activity (e.g., initial recognition of the lease at commencement) would be disclosed as a supplemental non-cash item.</li> </ul>

Table 1. Lessee presentation (EY, 2015).

What do analysts and credit rating agencies think?

- Analysts and credit rating agencies see a clear distinction between a lease and a service.
- Leases are different from service / executory contracts i.e. typically the asset is not obtained at start of a service / executory contract.
- In a lease the customer controls the use of the asset.
- In a service / executory contract the supplier controls the use of the asset.
- Revised lease definition may provide structuring opportunities to keep debt like obligations off-balance sheet and encourage the use of short term leases (PwC, 2014).

Assets and liabilities recognized by the lessee and lessor would be measured on assuming the longest possible lease term, taking into account the effect of any options terminate or to extend the lease. It is updated when changes in facts or circumstances indicate that there would be a significant change in those assets or liabilities since the previous reporting period (Young, 2015).

## 5 Case Study: Current State of Leasing Contracts

Chapter 5 explains the structure of the organizational leasing management platform. In addition chapter 5 summarizes the main content of financial and operational leasing contracts of Componenta.

### 5.1 Componenta Organization and Leasing Management

Componenta Corporation is a public company whose shares are quoted on the NASDAQ OMX Helsinki. Listed companies must provide more information about company's financial position and its development so that investors are able to monitor it.

Componenta is required to apply International Financial Reporting Standards (IFRS), which are principles-based accounting standards and interpretations. Group Finance is responsible for complying all standards and regulations and providing required information to the management and external interest groups.

Group Treasury is responsible for identifying and controlling all financial risks in the Group. It plans and executes all external and internal deals related to funding, foreign exchange, and interest rate hedging as well as arranges all guarantees to suppliers and financiers and determines credit limits to customers. In addition, it controls the Group liquidity by establishing effective cash management systems and maintains all financial trades in the treasury system.

At Componenta, IT related issues are managed and resourced according to the defined standards. The target is to provide consistent and appropriate tools for all employees.

Organizations generally establish strategy based on their vision, mission, policies and factors outside the organizational boundary. Projects are often to means to achieve strategic goals. An example of a value creation framework is shown in figure 13:

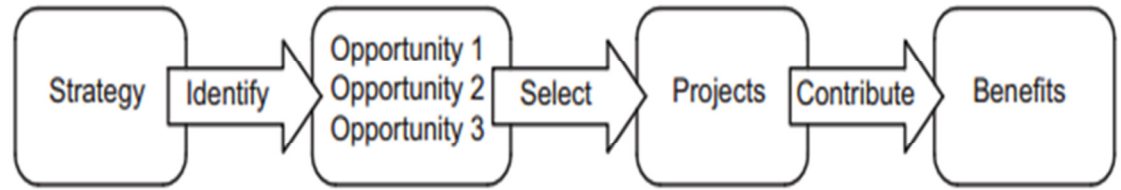


Figure 13. A value creation framework.

Currently, Componenta follows financial leasing agreements development by utilizing excel spreadsheets. These agreements are administered by Treasury department. In addition, the Treasury department is monitoring and coordinating the reporting of the operating lease contracts. Currently Componenta has about 80 financial leasing agreements (48 contracts in Turkey) and more than 200 operating leasing contracts.

## 5.2 Financial Leases

At the commencement of the lease term, lessees will recognise finance leases as assets and liabilities in their statements of financial position at amounts equal to the fair value of the leased property.

In Figure 14 are notes to the consolidated financial statements, Componenta Annual Report 2014.

## 28. Interest-bearing liabilities

MEUR	2014	2013
<b>Non-current interest-bearing financial liabilities</b>		
Loans from financial institutions	143.7	90.8
Finance lease liabilities	7.2	6.9
Pension loans	2.0	5.0
Capital notes	-	2.3
Bonds	6.3	31.5
	159.2	136.6
<b>Current interest-bearing financial liabilities</b>		
Loans from financial institutions	59.3	95.7
Finance lease liabilities	4.7	3.9
Pension loans	3.0	3.0
Capital notes	2.0	0.6
	69.0	103.2
<b>Total interest-bearing liabilities</b>	<b>228.2</b>	<b>239.7</b>
<b>Currency breakdown of interest-bearing financial liabilities</b>	<b>2014 %</b>	<b>2013 %</b>
Non-current		
EUR	98.6	96.9
SEK	1.4	2.6
TRY	0.0	0.5
Current		
EUR	90.2	94.4
SEK	2.9	2.7
TRY	6.9	2.2
USD	-	0.7

Cash flows are settled in the nominal currency of each liability agreement.

### Range of nominal and effective interest rates for interest-bearing financial liabilities

MEUR	2014 Nominal interest rates %	2014 Effective interest rates %	2013 Nominal interest rates %	2013 Effective interest rates %
Loans from financial institutions	0.9 – 7.5	0.9 – 9.8	0.9 – 7.9	0.9 – 8.7
Finance lease liabilities	0.6 – 13.8	1.7 – 19.9	0.8 – 13.3	1.7 – 19.9
Pension loans	1.9 – 4.8	1.9 – 4.8	1.9 – 4.8	1.9 – 4.8
Capital notes	10.0 – 10.0	14.4 – 14.4	10.0 – 10.1	12.6 – 13.9
Bonds	2.0 – 5.0	3.7 – 5.9	10.8 – 15.0	15.4 – 21.4

### Repayment schedule for interest-bearing financial liabilities 2014

MEUR	2015	2016	2017	2018	2019	2020+
Loans from financial institutions	59.3	30.1	68.0	10.6	10.0	25.0
Finance lease liabilities	4.7	4.0	1.9	0.9	0.4	-
Pension loans	3.0	0.9	0.5	0.5	-	-
Capital notes	2.0	-	-	-	-	-
Bonds	-	-	-	-	6.3	-
	69.0	35.1	70.4	12.0	16.7	25.0

### Repayment schedule for interest-bearing financial liabilities 2013

MEUR	2014	2015	2016	2017	2018	2019+
Loans from financial institutions	95.7	85.7	0.1	-	5.0	-
Finance lease liabilities	3.9	3.5	2.7	0.6	0.2	-
Pension loans	3.0	3.0	0.9	0.5	0.5	-
Capital notes	0.6	2.3	-	-	-	-
Bonds	-	-	9.8	21.7	-	-
	103.2	94.4	13.6	22.8	5.7	-

MEUR	2014	2013
Minimum lease payments fall due as follows:		
Not later than one year	5.2	4.4
Later than one year but not later than five years	7.6	7.2
Later than five years		-
	12.8	11.7
Future financial expenses	-0.9	-0.8
	11.9	10.9
Present value of minimum lease payments:		
Not later than one year	4.7	3.9
Later than one year but not later than five years	7.2	6.9
Later than five years		-
	11.9	10.9

In figure 15 is IAS 17 Finance leases Group reporting example. Componenta reports finance leases in accordance with IFRS in the group reporting.

Componenta Group

IAS 17 FINANCE LEASE REPORTING

Lessee	Componenta X
Lessor	Bank X
Contract number	xxx
Leased asset	Machine
Deal currency	EUR
Lease term - starting date	1.12.2011
Lease term - ending date	1.11.2018
Number of leasing payments	84

ONLY AT THE BEGINNING  
OF THE LEASE  
BOOK THIS TO ASSETS  
HFM (NEW CONTRACTS):  
112500/116500

REPORTING YEAR

INCOME STATEMENT AND BALANCE SHEET (1.000) EUR

2011	PERIOD 1	CUMULATIVE
12	Liabilities; start of period	430
	Leasing rent payments	6
	of which interest expense	
REPORTING MONTH	interest expense	X
	repayment of the loan	6
	Liabilities; end of the period	424
	short term liabilities (< 1 year)	48
	long term liabilities	376

Asset value at the star of the lease term	443 218,84 EUR
Depreciation time	10 YEARS
Paid advance rents	13 508,84 EUR
Liabilities at the start of the lease term	429 710,00 EUR
Residual value	42 971,00 EUR
Monthly rent at the beginning of the lease	5 538,01 EUR
Total lease payments(excl.residual value)	465 192,84 EUR
Interest rate implicit in the lease	4,61157 %
Total amortizations of the liability	429 710,00 EUR
Total finance expenses	78 453,84 EUR

NOTES

(1.000) EUR

Minimum lease payments		
Not later than 1 year	66	} HFM 219999
Later than 1 year and not later than 5 years	266	
Later than 5 years	170	
Total	503	
Future finance charges on finance leases (-)	78	} HFM: 221000 (- SIGN)
Present value of finance lease liabilities	424	
Present value of finance lease liabilities		
Not later than 1 year	48	} HFM 239999
Later than 1 year and not later than 5 years	215	
Later than 5 years	161	
Total	424	

Figure 15. IAS 17 Finance lease reporting.

### 5.3 Operating Leases

Other lease agreements are reported under other leases note in the financial statement. These leases are not recorded in the statement in financial position.

In figure 16 are notes to the consolidated financial statements, Componenta Annual Report 2014.

#### 34. Other leases

##### Group as lessee

Minimum lease payment schedule for other non-cancellable leases

MEUR	2014	2013
Not later than one year	1.3	1.4
Later than one year but not later than five years	2.9	2.9
Later than five years	1.1	1.4
Minimum lease payments total	5.3	5.7

Other non-cancellable leases mainly comprise real estate, production equipment and car leases. The leases mature on average in 3-5 years.

Some of the leases contain call options at a strike price that can be expected to correspond to the fair value at the expiry date.

The 2014 income statement includes lease payments of EUR -2.8 (-2.6) million for other non-cancellable leases.

##### Group as lessor

The minimum lease receivable schedule for other non-cancellable leases

MEUR	2014	2013
Not later than one year	0.7	0.6
Later than one year but not later than five years	0.6	0.6
Minimum lease payments total	1.3	1.2

Some of the production and office space that is currently not needed by the Group is leased to external parties. The rental agreements are from one to three years in length and normally contain an option to extend the lease period after the lease expires. Some of the property is classified, in accordance with IFRS, as investment property.

Figure 16. Financial Statements 2014 (Componenta, 2015).

Basic mapping of the other leases was done already prior the Thesis study. Componenta have for example car leases, ITC software and hardware leases etc. For the Thesis preparation purposes more information was needed to be collected especially from the IT leasing contracts. In addition more information was generally speaking needed from all other leasing contracts as well.

Group IT Director stated that Componenta Group's ICT target is to release fixed assets to service based ICT usage. He also said that some kind of agreement changes probably could be considered, but the accounting practice, in principle, does not guide

the IT strategy. Instead, the sensibility of the business contracts and the risk and cash flow targets of Componenta related to IT procurements and IT services are the core of decision-making. Firewalls hardware and software between our network and the Internet will also be replaced by service contracts in the future. Every country has its own service providers for one to three years contracts.

PCs are delivered as a service for 36 months including pre-installation and hard disk data cleaning when PC is returned after the service period. Mobile devices are delivered and maintained for 24 months by the operator. During the 24 months service period, operator is also responsible to provide corresponding spare devices if the original gets broken or needs other repair actions. The main ICT infrastructure servers are delivered as a full service for a certain period of time depending on the purpose and need of the servers. In most of the cases, service fee includes installation, life cycle maintenance, and operating system. The server can be dedicated or shared for several purposes. The service agreements are normally having six months' notice periods.

Componenta SAP platform is delivered as a full service by the hosting company. Service includes server platform installation, maintenance, and needed one time changes during the agreement period. Componenta is only responsible for SAP ERP software maintenance and development. The termination period of SAP service agreement is three years.

Office 365 tools and related services provided fully as a service from the Microsoft cloud. Monthly payment based on the usage calculated annually. The contract is valid for three years. Own video equipments are planned to be replaced by service contracts in the near future.



## 6 Possibilities Regarding the Platform

Componenta is currently preparing itself for the lease accounting standard changes. The company has contacted accounting software (ERP) vendor and brainstormed with them regarding the available solutions. Also their possible development plans have been tried to be identified. In addition other possible vendors and platforms have been tried to be mapped. In the nutshell the company is aiming to map better solutions for reporting and monitoring. In addition as a secondary target the company is thinking whether the approval process for entering leasing contracts should be formalized. Traditionally all financial leasing agreements have been formally approved at the Group –level and Treasury has been involved in the decision making process. However other operative leasing contracts have been negotiated and decided at the business unit - level and the Group involvement has been relatively limited.

### 6.1 Mapping the Possibilities of Calculation Platform

As a conclusion the following can be stated regarding the currently suitable solutions for reporting and monitoring:

*Possible platforms to calculate the future cash flows and accounting entries:*

- In-house developed Excel solutions.
- Auditing company KPMG offers in Finland only excel tool. There are also other Excel tools in the market, but those are not actively promoted.
- Necessary cash flows etc. can also be calculated by using dedicated Treasury systems, like TWIN.

Currently we are using in-house developed excel solutions for financial leases monitoring and reporting. The solutions are actually working pretty well, but as a tool it is somewhat heavy should there be a many new contracts to be followed. In addition the tool is exposed naturally for manual errors as well.

The Excel tool offered by KPMG's can manage the same functionalities as Componenta in house developed solution. The KPMG Excel tool pricing depends on following variables:

- The necessary changes to a tool: Installment-free months, further options/ redemption opportunities, other currencies, etc.
- KPMG's participation in individual contracts, the interpretation and classification.
- Contract / objects to be entered to the tool.
- Estimated price is somewhere between 4.000-8.000 €.

TWIN is treasury and asset management system. It supports the management of the financial market borrowings, currency contracts, derivatives etc. TWIN is a web-based online system (CGI, 2015).

Currently Componenta is not utilizing its treasury system, TWIN for financial leasing calculations. Although TWIN provides a separate calculation form to be used for financial leasing computations we have not used that due to certain limitations. According to our understanding TWIN can properly manage only standard type leasing contracts and therefore it has certain limitations regarding exotic leasing terms. Due to these limitations Componenta has used Excel application instead.

## 6.2 General Administration and Documentation

*Platforms to manage the approval processes, general administration and documentation of the leases:* These solutions are not computing the actual cash flows or accounting entries.

SAP Lease Administration is for lease data collection. Figure 17 illustrates lease traceability and collaboration.

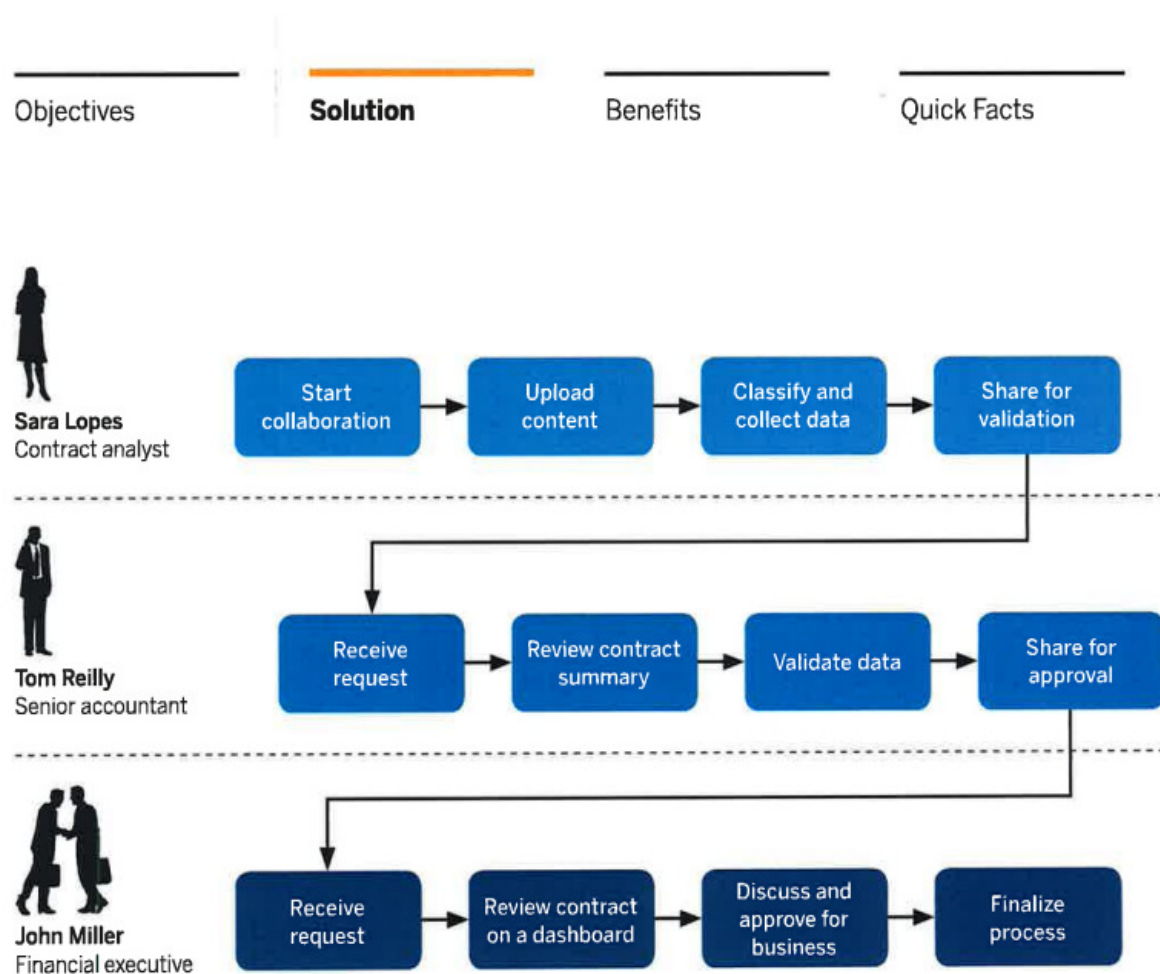


Figure 17. Collaboration across the enterprise for accurate and validated lease data (SAP. 2014).

I contacted SAP Solution Management team with question is there any financial allocation functionality in SAP Lease Administration and answer was no – solution is built to manage lease documents and all calculation, allocation etc. is meant to do in ERP (FI/CO). Estimated price is approximately 10.000 KEUR.

There are other automated non-SAP approval platforms available as well. Componenta has currently electronic approval processes in use for example in the areas of investments approval, travel bills approval and purchase invoice approval. The benefit of the SAP solution though is that the leased assets in general ledger and the approval process documentations could be filed under the same and one system umbrella.

SAP leased asset platform can storage variety of information, including information such as the number of lease payments, interest rate/lease factor, payment cycle, lease

installment, and lease agreement details, are located in the asset master. Liabilities for lease payments are created automatically for a capital lease. Even though SAP provides automatic links to GL we must bear in mind that the storage figures have been calculated by utilizing other programs as Excel. For an operating lease, you have to manually create documents in the new GL for lease payments. By using the asset master for reporting and analysis you can get information such as insurance company, replacement value and so on (Patel, 2012, 206).

Componenta is also using TWIN for recordings the leasing contract terms even though TWIN is not used for the calculations. This is mainly done for archiving purposes and also due to certain guarantee and option liability follow up reasons.

## 7 Solution Analysis

Chapter 7 discusses and introduces the selection criteria and it also summarizes decision making processes in organizations at the general level. In addition this chapter is analyzing the organizational capabilities of the case company regarding the lease project. For this analysis has methodologies used. The late part of this chapter is focusing for the specific solution selection criteria of the case company.

### 7.1 Regarding the Selection Criteria

Before a solution for a customer's business problem can be suggested, the seller/consultant/advisor must understand the reasons for the problem; and the capabilities needed to solve the problem. This section looks into different issues related to IT solutions.

A feasibility study means a report assessing the viability of the system. There are four main types that may be evaluated. In Figure 18 is a representation of these. It is recommended using a series of workshops for the key staff that pools their knowledge.

<b>Feasibility type</b>	<b>Purpose</b>	<b>Issues considered</b>
Economic	Costs of benefits of different solutions	- Cost-benefit analysis
Technical	Outline the best technical solution	- Make-or-buy decision - Produce shortlist of software, suppliers and systems integrators - Integration with existing systems
Operational	Determine impact on business processes	- Assess how well processes are supported by new system - Identify outline requirements
Organizational	Assess fit with organizational structure and culture	- Outline approach for introducing new system into organization

Figure 18. Different aspects of feasibility evaluated in the feasibility report.

Figure 19 provides pervasive business impacts. Accounting and reporting changes are coming to lease accounting.

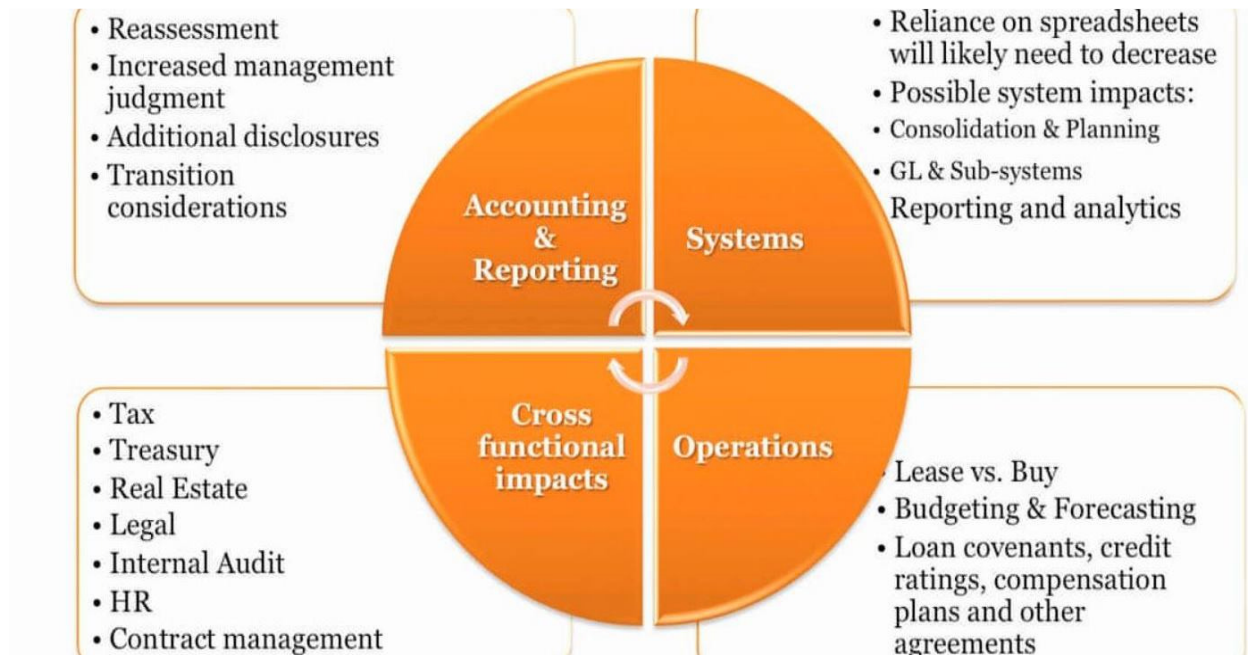


Figure 19. Pervasive business impacts (Oracle. 2013).

Equipment leasing provides flexibility to fit the needs of the company. Information is needed from leasing contracts. Companies need to think about new systems, new processes and new controls. The spreadsheets that many companies have historically used will not be sufficient in this new world.

## 7.2 Decision Making Processes in Organizations

The challenge in a hectic business life is that managers do not settle solely for systems-based accounting feedback. In large organizations, for example middle managers are keys to keeping vertical chains of feedback going. Control by seeking additional informal feedback loops, requires active attention (Pitkänen & Lukka, 2010). Change management involves new approaches to working. The introduction of new information systems requires their users to learn new methods of working (Chaffey & Wood. 2005, 384).

Interacting factors influencing the controlling arrangements are financial resources, business processes, technology, power, structure, people and culture. There are three internal interest groups in relation to information systems: users, information systems and general management (Boddy, Boonstra & Kennedy. 2005, 186).

An intuitive manager relies heavily on prior experience, intuition and judgement. This kind of manager will also accept better qualitative information when making a decision. Intuitive managers are very effective when making unstructured decisions. Unstructured decisions are complex situations, where the rules governing the decision are unknown or complicated (Bocij, Chaffey, Greasley & Hickie, 2006, 18-19).

Levels of managerial decision making are the strategic level, the tactical level and the operational level. At the strategic level, an example of a decision taken might be a choice of new markets to move in. An example of decision taken at the tactical level might be setting a team budget. A decision taken at the operational level might be setting a weekly production schedule (Bocij, Chaffey, Greasley & Hickie, 2006, 19-20).

Figure 20 provides a model of decision making. Decision needs determine information needs.

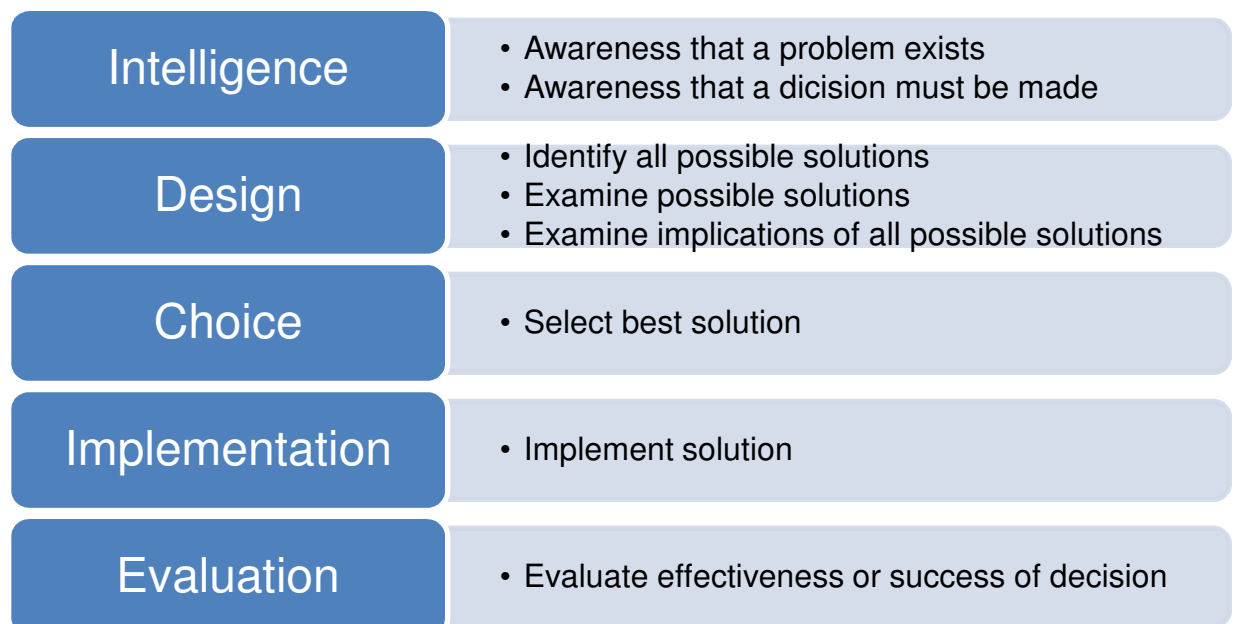


Figure 20. The decision-making process (Bocij, Chaffey, Greasley & Hickie, 2006, 22).

Decision making is the process of making choices. An information system (IS) supports management decision making. Herbert A. Simon describes decision making: Intelligence, design and choice. The information is required whole time, information from inside and outside the organization to design steps of action (Gelinas, Sutton & Hunton, 2005).

### 7.3 Organizational SWOT Analysis Regarding the Implementation Project

SWOT means Strengths, Weaknesses, Opportunities and Threats. It is analysis that can help a company face its opportunities and challenges. Internal factors are monetary resources and human resources. A SWOT analysis will ask the following questions: What are our technical strengths? What areas of our company lack knowledge? Are there opportunities to abuse knowledge? What treats are there to knowledge being lost?

Next, we will look at a SWOT analysis for the target company, Componenta:

- **Strengths:** We have good knowledge about leases. Already now Financial leases: at the commencement of the lease term, lessees will recognise finance leases as assets and liabilities in their statements of financial position at amounts equal to the fair value of the leased property.
- **Weaknesses:** Finance and accounting personnel are busy. Consensus must be achieved on all issues. IT solution options is not much yet available. People can change.
- **Opportunities:** We can improve the monitoring of expenditure, accurate analysis and better decision-making. We have enough on time thinking about the best solutions.
- **Threats:** We do not find a good solution or we do not know how to use it effectively. Supplier management failures: the project has little understanding of supplier commercial imperatives for example in fixed price contracts.



Stakeholders must be identified in the information audit process. Internal stakeholders are owner, user, client, operator, developer, builder, etc. External stakeholders are vendor, service provider, planner, customer etc.

#### 7.4 Solution Proposal for New Follow-Up Platform

Within the case company's solution analysis the following selection criteria has been used:

- Price
- Calculation ability
- Flexibility
- Easiness of the implementation
- System knowhow burden to organization

System price is a natural choice for the selection criteria since all organizations should consider economic aspects in their decision making. Calculation ability aims to measure the pure computation capacity of the system environment. By flexibility it is tried to be categorized how well the systems can adopt different type of leasing terms and contracts structures. The case company has number of different leasing contract providers and therefore flexibility regarding the term sheets is vitally important. Easiness of the implementation is measuring the assumed time and mental efforts to be sacrificed for the implementation projects. System knowhow burden criteria tries to rank the systems based on the in house knowledge requirement level of the system itself. In this context the light in house knowledge requirement has been considered as a merit and correspondingly a heavy knowledge requirement has been considered as destructive. Figure 21 shows the case company solution analysis.

Grading (1-3), Below Medium=1, Medium=2, Better than Medium=3

SOLUTION ANALYSIS					System Knowhow	
	Price	Calculation Ability	Flexibility	Easiness of the Implementation	Burden to Organization	Average
In-house developed Excel solutions	3	2	3	3	1	2,4
The KPMG Excel tool	2	2	2	2	3	2,2
TWIN	1	3	1	1	2	1,6

Figure 21. Solution Analysis.

My solution suggestion is an Excel tool. Platforms to calculate the future cash flows and accounting entries can be in-house developed Excel solutions or ready Excel tool from the market. We have enough time to tailor the tool to our needs. The price is relatively low. For example KPMG's estimated price is somewhere between 4.000-8.000 €. KPMG can do the necessary changes to a tool: installment-free months, further options, redemption opportunities, other currencies, etc. They can also help participation in individual contracts, the interpretation, and classification.

Currently Componenta has about 80 financial leasing agreements and those are rotated and monitored in Excel. We have good experience on excel tools and timesaving is one of the Excel's benefit. Data can be imported and exported from a variety of files. Excel simplifies work and therefore increases productivity. My opinion is that the risks are limited when choosing an Excel tool and benefits will overcome the defects. I understand that TWIN has its limitations regarding the flexibility. We can, however, utilize that program more in the future in case there will be development in the area of flexibility.

SAP Lease Administration solution is built to manage lease documents and all calculation, allocation etc. is meant to do in ERP (FI/CO). Estimated price is approximately 10.000 €. It is rather expensive and laborious option. One must bear in mind that SAP Lease Administration requires excel support since the module itself is not able to calculate all necessary parameters should there have been changes with the input data line floating interest rates, payment schedule changes etc. In other

words SAP is a good place for comprehensive documentation regarding flows, but it has limitations compared with tailor made excels computation ability.

Final decisions will be made when the official standard change is obtained. People analyze the situation and consider the best solutions. Program solutions will certainly be more in the future.

## 8 Most Important Implementation Steps in Process

In previous chapter we identified the preferred computation platform for lease contracts. This chapter focuses for the implementation steps theory and also from the practical perspective of the case company. Should the chosen platform be something else than the in house excel the practical aspects presented in this chapter can still be utilized?

### 8.1 System Development Methodologies

The first category of systems development methodologies is structured design. The original structured design methodology is waterfall development (is still used today). It describes a trust decide together how to do things. Step-by-step process how to plan and implement software development. Changes to requirements in the system require each stage to be revisited. Project goes along to next step when current stage completes (Dennis & Wixom & Roth. 2006, 11). Figure 22 illustrates waterfall development-based methodology.

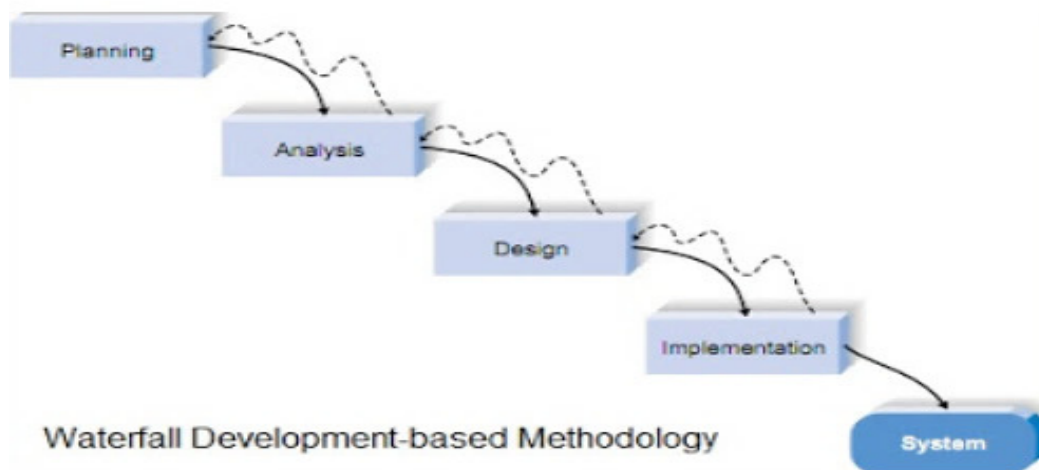


Figure 22. Waterfall Development-based Methodology (Dennis & Wixom & Roth. 2006, 11).

Figure 23 illustrates a parallel development-based methodology. The parallel development-based methodologies have a general design for the system is performed. Parallel development appears when there is a need for separate development paths to diverge from a common starting point.

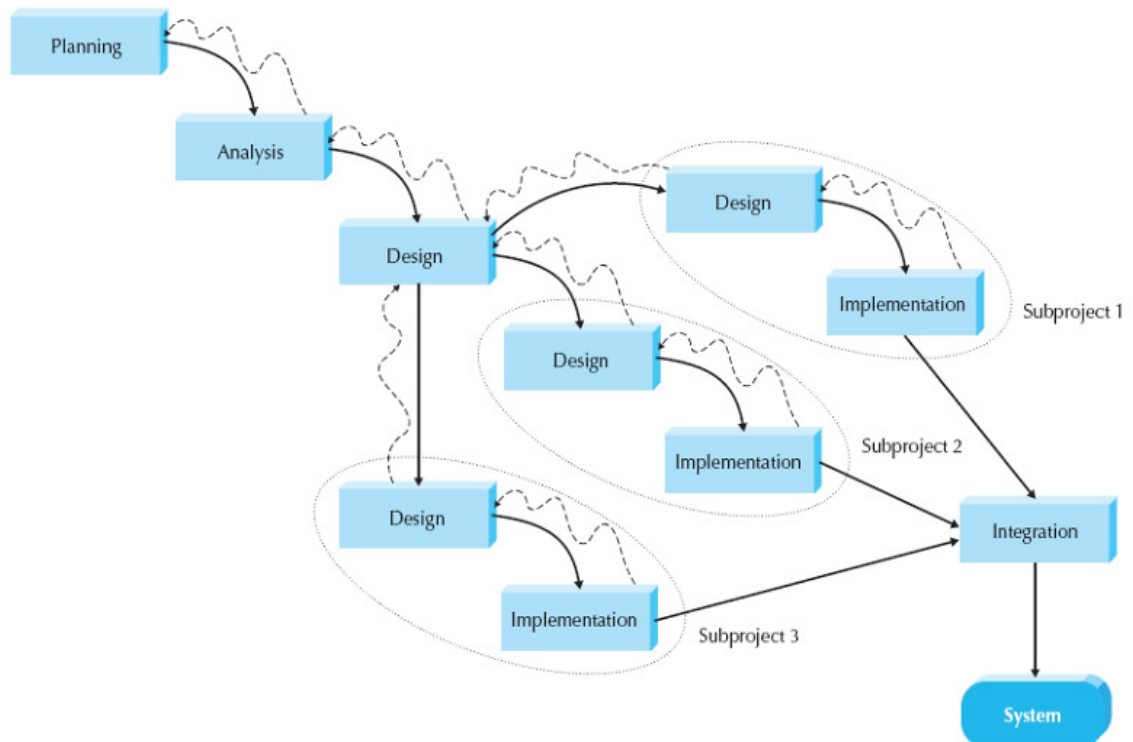


Figure 23. A Parallel Development-based Methodology (Dennis & Wixom & Roth. 2006, 12).

Team members need to stay abreast of what other team members are doing and why. If everyone is responsible for a thing, then often no one takes responsibility. The normal steps in the systems development lifecycle are initiation, feasibility study, requirement analysis, system design, build, implement, maintain, and kill (Bocij, Chaffey, Greasley & Hickie, 2006, 319).

## 8.2 Project Plan Theory in General

Testing starts with developing a test plan. That defines a series of tests that will be performed. There are four general stages of tests: system test, integration test, unit test, and acceptance tests. System tests are often conducted by the systems analysts to ensure that all programs and modules work together without error. System testing is similar to integration but is much wider in scope. Acceptance tests confirm that the system is complete. It meets the business needs and is acceptable to the users (Dennis & Wixom & Roth. 2006, 442-447).

Testing must be planned because the cost of fixing one big bug after the system is installed can be major. Documentation is moving away from paper-based documents to

online documentation (Dennis & Wixom & Roth. 2006, 459). The documentation used at the testing stage includes detailed test specifications, the user manual and data dictionary and quality assurance documents (Bocij, Chaffey, Greasley & Hickie, 2006, 547).

Testing is important. The V-model of systems development is relating analysis and design activities to testing activities. The Figure 24 shows that different types of testing are used to test different angles of the design and analysis of the system. When all modules have been completed, links between all modules are assessed in the system test. Interactions between tested all relevant modules are tested systematically. Software documentation refers to end-user guidance such as the user guide and technical maintenance documentation (Bocij, Chaffey, Greasley & Hickie, 2006, 545).

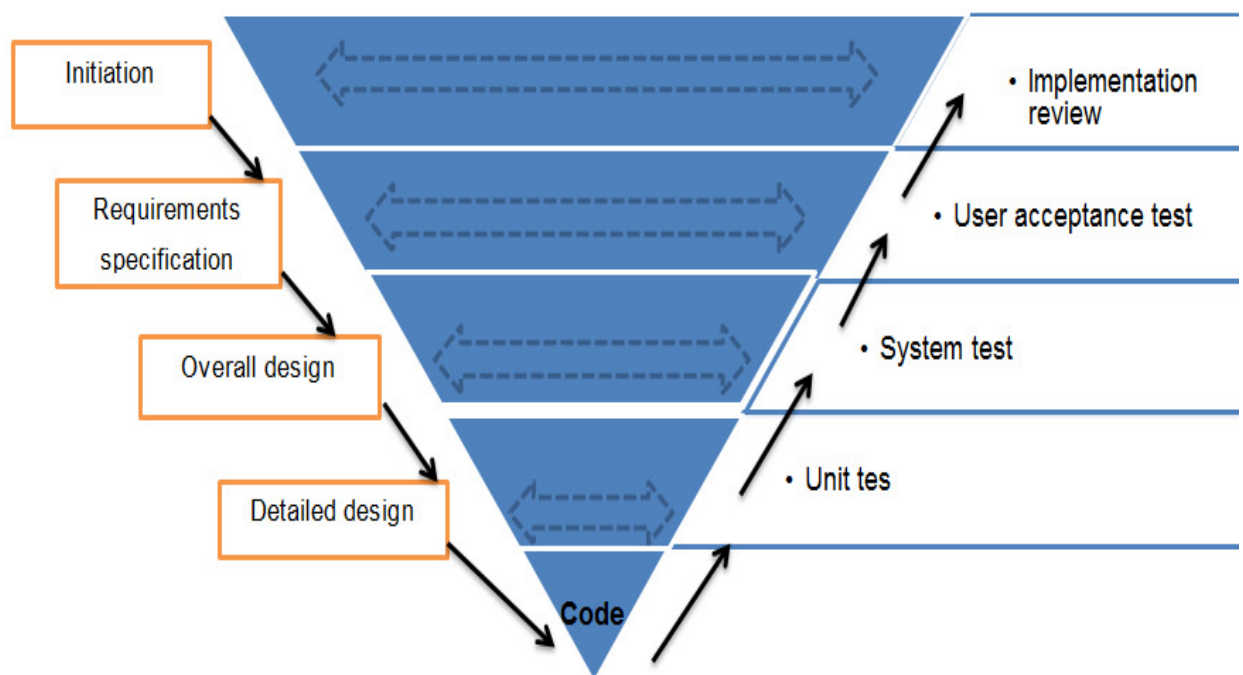


Figure 24. The V-model of systems development (Bocij, Chaffey, Greasley & Hickie, 2006, 544).

A memorandum is made of the meetings. There everyone can find all decided issues. From the memo can be found who is responsible for implementing the actions and the implementation schedule. The memo works as a means of memorization and reporting. Implementing systems is more than a matter of technology planning. Managers need to know the strategic implications of what they are undertaking. They have to be aware of culture, structure and human motivation. People are not passive recipients of change (Boddy, Boonstra & Kennedy. 2005, 242).

Interpersonal tactics can be supported by formal structures, such as teams, documentation and steering groups. An important task for the programme manager is to record, report and resolve issues and risks. Documentation includes:

1. A unique reference number for each issue or risk.
2. A description of the issue or risk.
3. The Owner - the name of the person.
4. Suggested resolution.
5. The name of the person assigned to resolve the issue.
6. Progress/Comments (Boddy, Boonstra & Kennedy. 2005, 249).

Programme management requires a separate set of tools to help with control. Risks systems and issues provide a controlled mechanism for resolving and raising problems. Regular reporting forms help to coordinate information (Boddy, Boonstra & Kennedy. 2005, 253).

Timeliness and accuracy are more important than detail in programme management when presenting information. Senior people need to see main points quickly, that they can concentrate on the things which most need their attention. It is good use of graphs, symbols, and colours (Boddy, Boonstra & Kennedy. 2005, 256).

Management processes include develop and manage human resources. Manage information resources, technology, financial and physical resources. Also manage environmental, health, and safety issues. External relationships are important and you have to manage improvement and change. Many different types of information support these processes. These are for example product information, business process information, management information and plans, human resource information, supplier information, and accountable information (Chaffey & Wood. 2005, 13).

According to Chaffey and Wood, within organization, information transformation follows next stages:

1. Input of data.
2. Routeing of data to location for processing.
3. Processing of data to produce information.
4. Distribution of information to its users.

## 5. Interpretation and analysis of information.

These stages are summarized in figure 25.

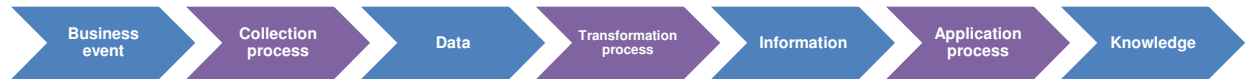


Figure 25. The data to information to knowledge transformation process (Chaffey & Wood. 2005, 22).

Activities involved processing information can be summarized by using the 4 Cs: Context, calculation, classification or categorization and condensation (Chaffey & Wood. 2005, 25).

### 8.3 Project Plan Proposal for the Case Company

Group Treasury is responsible for identifying and controlling all financial risks in the Group. It plans and executes all external and internal deals related to funding, foreign exchange and interest rate hedging as well as arranges all guarantees to suppliers and financiers and determines credit limits to customers. In addition, it controls the Group liquidity by establishing effective cash management systems and maintains all financial trades in the treasury system. Treasury is also responsible for leasing contracts administration and controlling. We have a credit controller position and the person in question, is responsible for internal and external leasing reporting.

It is recommended to we purchase or to build a software solution, which is being tested in a versatile and comprehensive manner before the adoption. Accounting entries and system functionalities are to be talked through and tested with the auditors. We will also prepare a training plan and utilize also external audit companies in training if necessary. The control of project expenditures is also important, including the costs of people working on the project.



Finance department is responsible for group accounting principles, annual reports and interim reports. CFO and VP Group Finance & Controlling have main responsibility. Our treasury department work closely together with finance department. Enough wide and varied testing is an important part of risk management. The figure 26 shows the V-model of systems development of the case company. The V-model of systems development is relating analysis and design activities to testing activities.

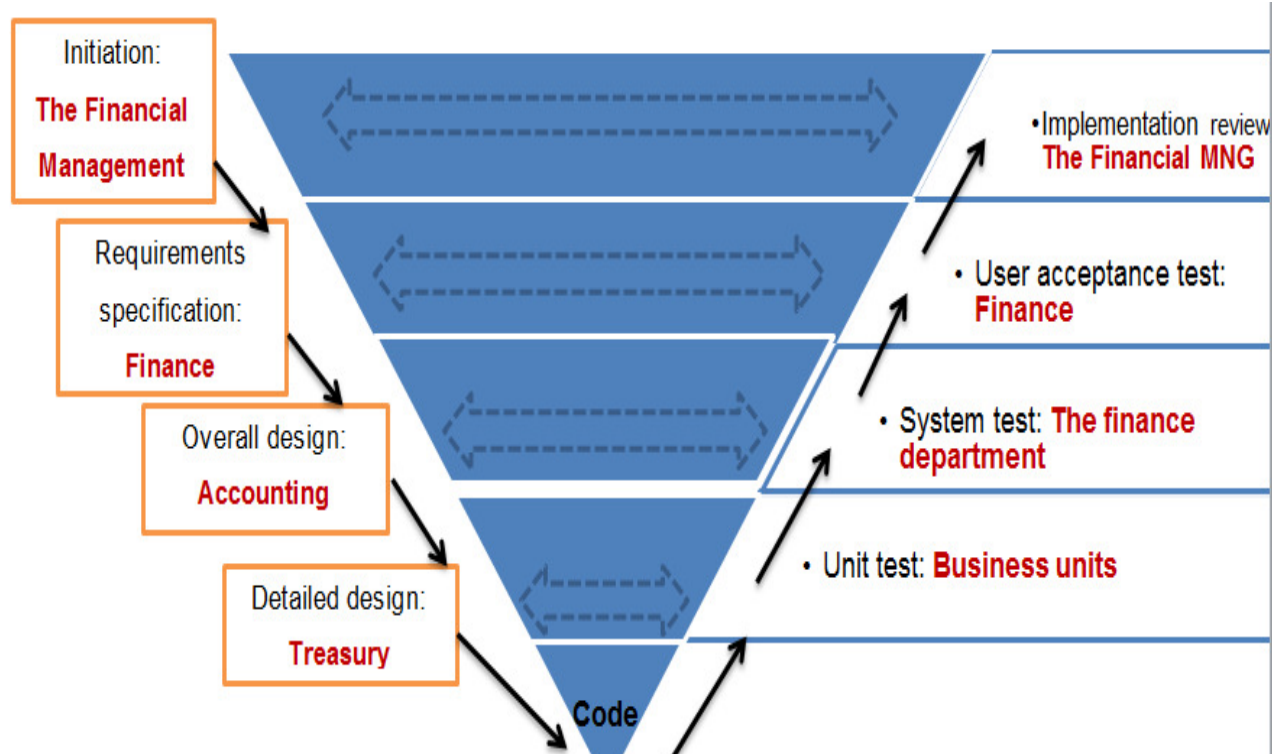


Figure 26. The V-model of systems development of the case company.

We expect that the new IFRS leasing standard will be released by the end of 2015. When the new standard comes we need to consider a precise timetable for the project. The new standard is not likely to be effective before January1, 2018. (EY, 2015)

More information is needed from all other leasing contracts. When we have the IT solution we must test that. If training is needed we can ask help from our auditing company. Our treasury department and finance department together agree person responsible. Sufficient time allocation to the project is of crucial importance for the successful out-come. Surveys of lease agreements can be drawn up in advance of the organization units. E-mail to collect data quickly and it is easy to archive. Instructions shall be drawn up according to need. Information is recorded. This is important if the people would change.

Figure 27 illustrates the project schedule draft. When a precise timetable for the change in the standard is known, Componenta must draw up a definitive timetable for the project. The project officially begins in the first half of 2016. Project people and their responsibilities are mapped. Legal department is responsible of the contract documents related to the program.

Q1 2016	• The project begins
Q3 2016	• Specifications ready
Q4 2016	• Installations made
Q1 2017	• Testing readiness
Q3 2017	• The start of production
Q1 2018	• Ending the project

Figure 27. Schedule draft.

Figure 28 illustrates project organization. Project sponsor has overall project responsibility. Project sponsor secures business commitment and project funding. Project steering group represents the business, end users and the project at managerial level to allow working level decisions to be taken. Project manager manage the project on day to day basis. Project team consists of developers and users who are tasked with completing the work. The project team members must be enough to keep to the schedule. It is good to have people from different departments and also the IT professionals. Project team members may have different technical skills.

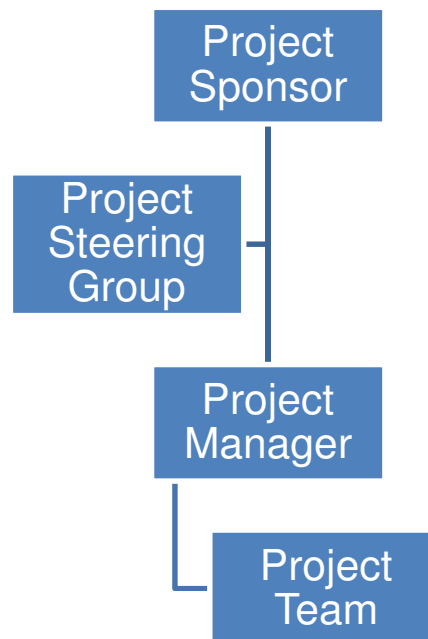


Figure 28. Project organization.

The project team will spend some period of time monitoring the implemented solution. If there are problems after implementation, the project team should fix them. Implementation includes a support plan for the system: a formal or informal post-implementation review. We are developing a program after the introduction.

People motivation is important and it is dependent on organizational culture. Leadership in a change management involves supporting people achieve the goal. The management communicates the vision.

#### 8.4 Training

A training plan is drawn up: training schedule, who is trainer, participants, where training will be held, and what kind of material is needed?

SAP has online training (e-courses) and education courses for the SAP solutions. A company's own SAP consultants can arrange training. A test program is a good way to test solution. You can find good material even on the Internet. Figure 29 illustrates team, training and solution stairs.



Figure 29. Team, training, solution stairs.

Practical training in how to use the software, such as which buttons to press and which menu options are available, is common. It is important to explain to the staff why the program is being brought in (Bocij, Chaffey, Greasley & Hickie, 2006, 565).

A training plan should be developed for the company for introducing the new software. Before coming up with the actual plan, it is important that the company establishes the goals that they want to reach with the training as well as identify the skills and information that the participants are expected to gain by participating in the training. Identify training resources for example software, videos, computers and workbooks. Calculate a training budget, select qualified trainers, develop a training topic outline, use a variety of learning styles, and establish a timetable (WikiHow, 2015). Staff motivation is dependent on the organization culture (Chaffey & Wood. 2005, 405).

The human computer interaction (HCI) tries to understand both the human users and the computer system. The practitioners of human-computer interaction aim to make the interaction of computers and people more productive and satisfying. They can be expressed in the design of the interface (Boddy, Boonstra & Kennedy. 2005, 197).

Training for business systems should focus on helping the users in their jobs, not just focus on how to use the system. There are many possibilities to deliver training. These are classroom training, one-on-one training and computer-based training (CBT). CBT means that the training program is delivered via computer, either over the Web or on CD (Dennis & Wixom & Roth. 2006, 480-481).

## 9 Conclusion and Future Work

New lease accounting standard implementation project is recommended to be started early enough. Early started preparations will enable companies to successfully complete the implementation at a lower cost. It is important to coordinate the project steps with the corporate IT department. For the lessee, the new leasing standard will increase administrative burden.

People in my workplace are beginning to prepare themselves for the leases standard change. Final decisions regarding the implementation plan will be made when the official standard change is being obtained. People will analyse the situation and consider the best possible solutions. Currently there are not many program solutions available which would flexibly make all necessary computations and also simulate the necessary trial balance entries. There will certainly be more programs solutions available in the future after the final IFRS leasing standard has been released.

We expect that the new IFRS leasing standard will be released by the end of 2015. The new standard is not likely to be effective before January 1, 2018. (EY, 2015) The standard has been long awaited and the uncertainty about its content has caused a lot of concern and also frustration for the future. Hopefully we will soon have clear rules of the future requirements. Auditing companies are going to provide important support for business implications mapping and also for the implementation projects. Due to the uncertainty of the content it has been challenging to get good written material related to practical matters of the implementation of the new standard. In general, people have been quite careful to present definitive conclusions before the final standard change have been released. A small organizational frustration around the long-running uncertainty is noticeable and already started brainstorming and implementation projects have temporarily been put on hold.

For me, this project has been instructive and useful. I have been looking information widely and read plenty of material. IFRS is now a bit more familiar to me. The writing process itself has been challenging and hopefully readers will find some useful ideas from this thesis. The research work described in this thesis is covering only part of the implementation aspects to be considered by the project management. For example human resource related organizational aspects have been left for somewhat minor attention in this thesis. However, from HR perspective it can be said that people in the

organization have been well motivated and committed to the coming project work. Knowledge and experience sharing is functioning well inside the organization.

My solution suggestion for lease calculations platform is an Excel tool. Platforms to calculate the future cash flows and accounting entries can be in-house developed Excel solutions or ready built Excel tool to be purchased from the market. We still have enough time to tailor the selected tool to our specific needs. As said, there are not too many leasing calculations platforms, outside excel, available at the moment and therefore the final solution related decisions can still be postponed, should there be more programs available after the final standard have been released.

Project team consists of developers and users who are tasked with completing the work. The project team members must strictly keep the agreed schedule. It is recommended to have people from different departments and also the IT professionals should participate for the project. Sufficient time allocation to the project is crucially important for the successful outcome. Surveys regarding detailed lease agreements terms can be drawn up in advance at all organizational levels. E-mails enable us to collect the agreement data quickly to the project team and e-mails are also easy to archive and to share. Instructions shall be drawn up according to the needs. All information should be well archived.

Most probably the new leasing standard will also force the corporations to implement more detailed contract management platforms. SAP provides a comprehensive platform for lease term archiving and management which is also directly linked to SAP general ledger assets. It should be noted though that this platform is a complementary tool on top of the recommended excel. It is also possible that already existing contract terms will be modified based on the possible exceptions to be provided by the new leasing standard. This means in practise that the terms might be renegotiated in case the renegotiated terms will allow the lessees to get rid of the binding assets and liabilities recordings. In the case company the economic aspects of the terms are in most cases considered more important than the accounting and reporting aspects: "business and cash flow overrides the reporting tricks searching in most cases".

When all modules have been completed, links between all modules are assessed in the system test. Enough wide and varied testing is an important part of the risk

management. Software documentation refers to end-user guidance such as the user guide and technical maintenance documentation.

The standard has been the subject of several Theses. Hopefully, after the release of the new standard, the interest in the topic is maintained. Practice will show how companies are starting to change their behaviour. It would be useful to hear what IT solutions have been introduced.

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